World Economic Outlook

Is the Tide Rising?

January 2014
Global activity has strengthened. Further improvements expected.

WEO Update in a nutshell

• Advanced economy growth has picked up
  ➢ Robust private demand in the U.S.
  ➢ Japan on the Abenomics wave
  ➢ Euro area is turning the corner from recession to recovery
  ➢ Growth spillovers to emerging market economies: exports have picked up

• Global growth is projected to strengthen in 2014-15, broadly as expected
• Weak and uneven recovery; downside risks remain
Global activity has strengthened, especially in advanced economies.

World Trade Volumes, Industrial Production and Manufacturing PMI
(3mma, annualized percent change)

Sources: Markit Economics; Haver Analytics; Consensus Forecast; and IMF staff calculations.
AE fiscal policy will be less tight in 2014, except in Japan.

Fiscal Impulse

(Change in structural balance as percent of GDP)

Source: IMF staff estimates.
Tighter U.S. monetary conditions interacted with EM domestic weaknesses and led to somewhat tighter EM funding conditions.

**Net Capital Flows to Emerging Markets**
(billions of U.S. dollars; monthly flows)

**Interest Rate Spreads**
(basis points)

Sources: Bloomberg, L.P.; EPFR Global/Haver Analytics; and IMF staff calculations.

Note: ECB = European Central Bank; LTROs = longer-term refinancing operations.

1/ JPMorgan emerging market volatility index.
2/ JPMorgan EMBI Global Index spread.
3/ JPMorgan CEMBI Broad Index spread.
With smaller capital inflows, exchange rates have been a shock absorber in many emerging market economies.

Nominal Exchange Rates
(U.S. dollars per national currency; percent change from May 22, 2013 to January 17, 2014)

Percent Change from Dec. 18, 2013 to Jan. 17, 2014

Note: COL = Colombia; PER = Peru; CHN = China; POL = Poland; MEX = Mexico; RUS = Russia; IND = India; IDN = Indonesia; BRA = Brazil; TUR = THA; PHL = Philippines; CHL = Chile.
In the BRICS, exports have picked up, but domestic demand has remained weak—consistent with tighter financial conditions and other weaknesses.

Sources: Haver Analytics; IMF staff calculations.
No boost from commodity prices. But no bust either. Downside risks to prices of some commodities from supply response to high prices.

Source: IMF staff estimates.
Growth in China is expected to stay around 7 percent. But contribution to global growth remains substantial.

Source: IMF staff estimates
### Global Activity is Projected to Strengthen

#### WEO Real GDP Growth Projections
*(percent change from a year earlier)*

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<th>World</th>
<th>U.S.</th>
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Source: IMF, World Economic Outlook.
Downside risks remain. Forecasts upgrades for 2014 are recent, with much of the upward surprises reflecting inventory demand: Yet another false dawn?

Evolution of Consensus Forecasts for Real GDP Growth in Advanced Economies
(year-over-year percent change)

Sources: Consensus Forecast; and IMF staff estimates.
Tapering risks: The U.S. 10-year term premium could surprise on the upside

U.S. Term Premium on 10-year Zero Coupon Bond

Sources: Kim and Wright (2005); and IMF staff calculations.
Inflation is projected to stay below target. Risks of deflation and inflation expectations drifting down in advanced economies.

Global aggregates: Headline Inflation  
(year-over-year percent change; dashed lines are the six-to-ten-year inflation expectations)

Sources: Consensus Forecast; and IMF staff estimates.
Policies

Euro area: banking union; structural & entitlement reforms; fiscal adjustment
Japan: work on all 3 arrows of Abenomics
US: address ST fiscal challenges; easy monetary policy; MT fiscal adjustment & entitlement reforms

China: advance rebalancing and reform shadow banking
India: improve fiscal policy and remove structural bottlenecks
Brazil: raise domestic saving and foster private investment
Russia: rebuild fiscal buffers and improve the investment climate

EMDC: (i) exchange rate buffer; (ii) monetary policy to keep inflation well anchored; cut rates if room exists; (iii) fiscal policy to be geared to MT objectives; stimulate only if major slowdown threatens; (iv) preserve financial stability; (v) structural reforms
BRICS

Sources: Haver Analytics; IMF staff calculations.

Real GDP Growth
(deviation from 1999-2006 average; q-o-q annualized)

Real Fixed Capital Formation Growth
(percent, y-o-y)

Sources: Haver Analytics; IMF staff calculations.